

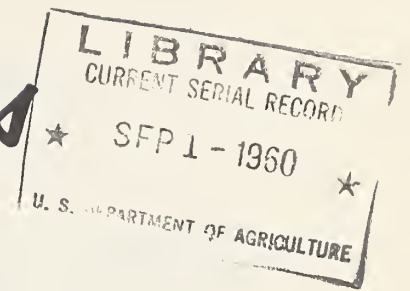
## **Historic, Archive Document**

Do not assume content reflects current scientific knowledge, policies, or practices.



734M  
p. 2

# Milk Distributors



## Sales and Costs

January-March 1960

MDSC No. 14

U. S. DEPARTMENT OF AGRICULTURE  
Agricultural Marketing Service  
Marketing Economics Research Division

MILK DISTRIBUTORS' SALES AND COSTS  
January-March 1960

By D. D. MacPherson and Helen V. Smith  
Marketing Economics Research Division  
Agricultural Marketing Service

---

: This report is the current issue of a series based upon :  
: information obtained from distributors of fluid milk and :  
: cream products. These distributors are subscribers to a :  
: cost comparison service which furnished the Department :  
: with tabular data for analysis. A uniform accounting :  
: system is used, and information is given on standardized :  
: forms. Data reported include: Costs and quantities of :  
: raw milk and other raw materials; prices and quantities :  
: of products sold; and operating costs. :  
: :  
: The firms selected are privately owned, and chiefly single- :  
: plant firms. In these characteristics they are considered :  
: to be typical. Very small firms, very large firms, national :  
: chains, and producer-distributors are not included. :  
:

---

SALES AND COST

In January-March 1960, milk distributors' net sales receipts per 100 pounds of milk and cream processed decreased less than seasonally but increased considerably from a year earlier. Costs of materials for processing and resale were down about seasonally and were unchanged from last year. Consequently, gross margins were higher.

Operating costs of milk distributors were seasonally lower than in October-December 1959, but higher than in January-March 1959. The average net margin--the amount available for return on investment and payment of income taxes--was up substantially from the previous quarter and from the same quarter a year earlier.

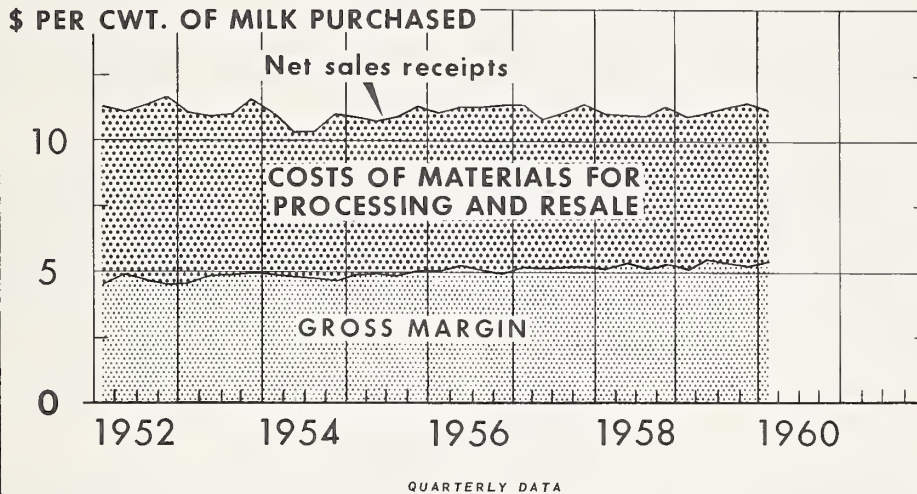
Net Sales Receipts

Milk distributors' net receipts from sales were \$11.19 per 100 pounds of milk and cream processed in the January-March 1960 quarter. (Net sales receipts are gross receipts less discounts, allowances, and returns.) The decrease of 15 cents per 100 pounds from the previous quarter was seasonal and was smaller than in most earlier years. The increase of 26 cents in net sales receipts per 100 pounds from the January-March quarter of 1959 continued the recovery from the low levels of 1958.

July 1960

Fluid Milk Processing-Distributing Firms

## NET SALES, COST OF MATERIALS, AND GROSS MARGIN



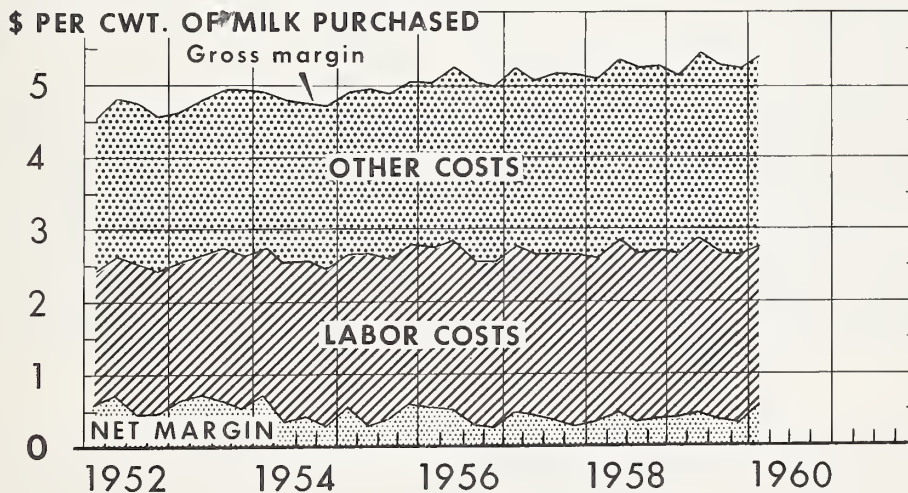
U. S. DEPARTMENT OF AGRICULTURE

NEG. 3996-60 (6) AGRICULTURAL MARKETING SERVICE

Figure 1

Fluid Milk Processing-Distributing Firms

## OPERATING COSTS



\* BEFORE INCOME TAX.

U. S. DEPARTMENT OF AGRICULTURE

NEG. 3997-60 (6) AGRICULTURAL MARKETING SERVICE

Figure 2



## Cost of Materials for Processing and Resale

In the January-March quarter of 1960, milk distributors' cost of materials for processing and resale was \$5.81 per 100 pounds of milk and cream processed--a decrease of 31 cents from the previous quarter and 1 cent below a year earlier. The quarter-to-quarter decrease followed the pattern of previous years: Costs of raw milk and cream decreased 14 cents; a year earlier the drop was 12 cents, and two years ago 17 cents. Most of the quarter-to-quarter decrease was in "other" ingredients used and items purchased for resale. Seasonal variation in "other" costs is discussed later in this article.

Costs of materials for processing and resale, as a percentage of net sales receipts, continued the steady decline of past years. The gross margin of milk distributors--net sales receipts less cost of materials for processing and resale--was 48.1 percent of net sales receipts, an increase of 1.3 percentage points from a year earlier and the highest of any first quarter during the 1952-60 period.

## Operating Costs

Operating costs for fluid milk distributors totaled \$4.83 per 100 pounds of fluid milk and cream processed in the January-March 1960 quarter--a decrease of 7 cents from the previous quarter but an increase of 12 cents from the first quarter of 1959.

Rises and falls in individual operating costs resulted in the net year-to-year increase of 12 cents. Wages, salaries, and commissions rose 9 cents. These personnel costs represented 55 percent of all operating costs in January-March 1960 and 52 percent in the same quarter of 1956 and 1957. Salaries, wages, and commissions have increased, both in absolute amount and as a percentage of total operating costs, every year since this series began in 1952.

Container costs, at 66 cents per 100 pounds of fluid milk and cream processed, were 1 cent below a year earlier, continuing the downward trend of the past 4 years. This downward trend probably results from the shift to larger containers which cost less per unit of product. Costs of operating supplies, at 30 cents, were 1 cent above a year earlier, an increase not indicative of any trend since these costs have varied irregularly from 28 to 30 cents for the past 14 quarters. Costs of rent, repairs, and depreciation were 66 cents--up 2 cents from a year earlier but about the same as during the past 3 years. All other operating costs totaled 58 cents, 1 cent more than in the same quarter of 1959.

Fluid milk distributors' net margin--the amount available for return on investment and payment of income taxes--was 55 cents per 100 pounds of milk and cream processed in the first quarter of 1960. This was an increase of 23 cents from the previous quarter, an increase of 15 cents from a year earlier, and the highest for any quarter since the 60 cents in the last quarter of 1955.

Table 1.--COSTS AND MARGINS FOR SELECTED DAIRY FIRMS: Per 100 pounds of milk and cream processed, for years 1952-59, and for the 5 most recent quarters

	Yearly average												1959				1960																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											
	1952	1953	1954	1955	1956	1957	1958	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959	1959

1/ Preliminary.

2/ Gross sales receipts less discounts, allowances, and returns.

3/ Includes State unemployment, Federal old age, workmens' compensation, and employee benefits.

4/ Net returns to owners before income taxes.

## COST OF "OTHER" MATERIALS FOR PROCESSING AND RESALE

The "other" segment of the cost of materials for processing and resale has averaged about 8 cents per dollar of sales over the last 8 years (table 1). This cost consists of raw materials (other than raw milk and cream), ingredients used in fluid items and ice cream, finished products purchased for resale, inventory adjustments for raw materials and finished products, and income or expense for hauling raw materials.

Raw milk and cream is frequently hauled from the farm in company-owned trucks at a charge to farmers. Expense or income from hauling depends on which is larger: Expenses or charges to farmers. This item and inventory adjustments are not further considered in this article.

The "other" costs of materials for processing and resale are, individually, small compared with costs of raw milk and cream. Yet, collectively, they are important; during the 1956-59 period they have amounted to two to three times as much as the net returns (before income taxes).

### Products Purchased for Resale

Finished products purchased for resale account for some 60 percent of the "other" costs, averaging a little less than 5 cents per dollar of sales during the 1956-59 period (fig. 3). Butter, eggs, cheese, margarine, and orange juice purchased for resale by the milk department were the most important: costs were 4.11 cents per dollar of sales in 1956, 4.49 cents in 1957, 4.20 cents in 1958, and 4.59 cents in 1959. Assuming that markups have remained about the same, it appears that these products may be becoming more important in the fluid milk distributor's business. However, it seems that their importance does not vary seasonally: Average costs by quarters for the 4-year period vary less than 2 percent from the annual average as shown below:

	<u>Cents</u>		<u>Cents</u>
1st quarter	4.27	3rd quarter	4.42
2nd quarter	4.31	4th quarter	4.40
		Annual average	4.35

Ice cream novelties were the most important product purchased for resale by the ice cream department. The novelties, plus other items such as ice cream store products, averaged a little more than 0.6 cent per dollar of sales over the 4-year period. The ice cream department, as contrasted with the milk department, had a definite seasonal pattern on cost of resale products:

	<u>Cents</u>		<u>Cents</u>
1st quarter	0.41	3rd quarter	.76
2nd quarter	.81	4th quarter	.50

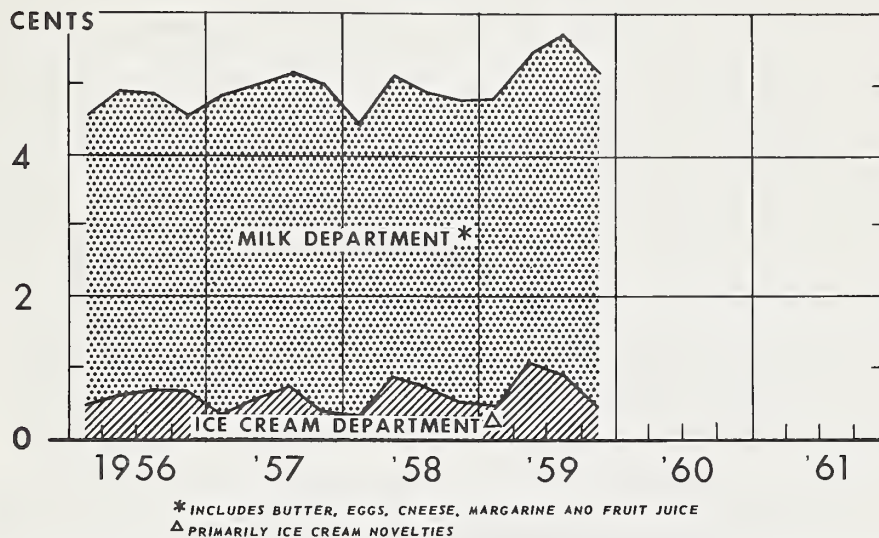
### Raw Materials

In addition to raw milk and cream, fluid milk distributors also use condensed skim, nonfat dry milk (powder), and vegetable fat. These raw materials



# PRODUCTS PURCHASED FOR RESALE

Costs Per Dollar of Sales for Fluid Milk Distributors



U. S. DEPARTMENT OF AGRICULTURE

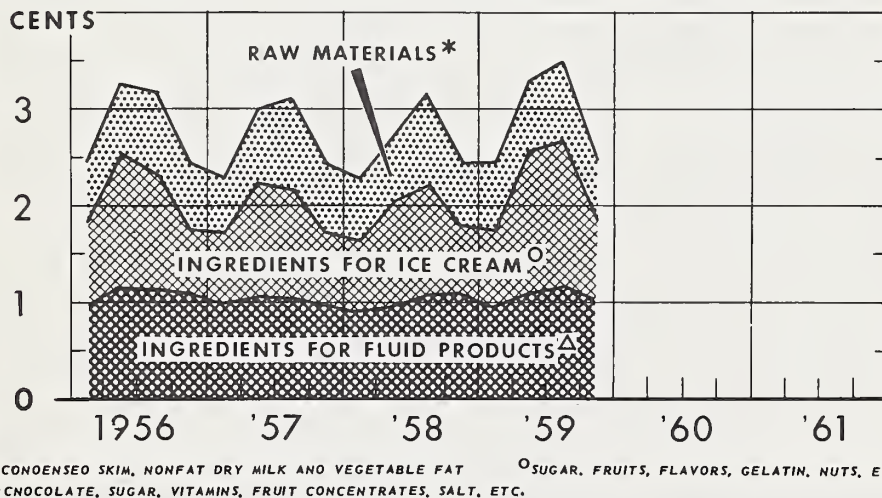
NEG. 7939-60 (6)

AGRICULTURAL MARKETING SERVICE

Figure 3

# RAW MATERIALS (OTHER THAN MILK AND CREAM) AND INGREDIENTS

Costs Per Dollar of Sales for Fluid Milk Distributors



U. S. DEPARTMENT OF AGRICULTURE

NEG. 7938-60 (6)

AGRICULTURAL MARKETING SERVICE

Figure 4

cost slightly more than 0.7 cent per dollar of sales during 1956-59 and consisted of about 0.11 cent for condensed skim, 0.53 cent for nonfat dry milk, and 0.07 for vegetable fat. Costs for these materials per dollar of sales, have remained very steady, averaging 0.75 cent in 1956, 0.73 cent in 1957, 0.73 cent in 1958, and 0.72 cent in 1959. Quarterly cost data for the 4-year period, however, reflect the seasonal use of these materials in frozen products:

	<u>Cents</u>		<u>Cents</u>
1st quarter	.69	3rd quarter	.88
2nd quarter	.71	4th quarter	.66

#### Ingredients

The cost of non-milk ingredients used by fluid milk distributors was divided about equally between fluid products and frozen products. Total cost of ingredients averaged a little more than 2 cents per dollar of sales during 1956-59 (fig. 4).

Ingredients purchased for use in fluid products were principally chocolate, sugar, vitamins, fruit concentrates, and salt. Costs of these ingredients averaged about 1 cent per dollar of sales in each of the 4 years. The first-quarter costs were lowest in each year and averaged lowest for the 4 years:

	<u>Cents</u>		<u>Cents</u>
1st quarter	0.93	3rd quarter	1.07
2nd quarter	1.03	4th quarter	1.02

This probably was because about 15 percent of the fruit drinks were sold in the first quarter, 29 percent in the second quarter, 36 percent in the third quarter, and 20 percent in the fourth quarter.

Ingredients purchased for use in ice cream and related products were principally sugar, fruits, flavors, gelatin, and nuts. Costs for these ingredients of frozen products averaged slightly more than 1 cent per dollar of sales during the 1956-59 period. The costs did not vary substantially from year to year but were somewhat higher in 1959 than in previous years. Seasonally, costs of ice cream ingredients have the same pattern as frozen products purchased for resale--that is, considerably higher in the spring and summer quarters:

	<u>Cents</u>		<u>Cents</u>
1st quarter	0.80	3rd quarter	1.27
2nd quarter	1.30	4th quarter	0.76

This quarterly variation in costs is about the same as the quarterly variation in sales of ice cream expressed as a percentage of annual sales: 17 percent in the first quarter, 31 percent in the second quarter, 33 percent in the third quarter, and 19 percent in the fourth quarter.